

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Henika District Library
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended December 31, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Henika District Library

We have audited the accompanying financial statements of the governmental activities and the major fund of Henika District Library, as of June 30, 2004, and for the year then ended, which collectively comprise the Henika District Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Henika District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Henika District Library, as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004.

The budgetary comparison schedule on page 12 is not a required part of the basic financial statements of the Henika District Library, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Henika District Library has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Siegfried Crandall P.C.

February 21, 2005

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE

December 31, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Current assets			
Cash	\$ 183,609	\$ -	\$ 183,609
Receivables	223,050	-	223,050
Prepaid expenses	-	2,579	2,579
Total current assets	<u>406,659</u>	<u>2,579</u>	<u>409,238</u>
Noncurrent assets			
Capital assets (net of accumulated depreciation)	-	148,376	148,376
Total assets	<u>\$ 406,659</u>	<u>150,955</u>	<u>557,614</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 3,869	-	3,869
Accrued liabilities	3,653	2,051	5,704
Deferred revenue	222,802	-	222,802
Total liabilities	<u>230,324</u>	<u>2,051</u>	<u>232,375</u>
FUND EQUITY			
Fund balance:			
Unreserved undesignated	<u>176,335</u>	<u>(176,335)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 406,659</u>		
NET ASSETS			
Invested in capital assets		148,376	148,376
Unrestricted		<u>176,863</u>	<u>176,863</u>
Total net assets		<u>\$ 325,239</u>	<u>\$ 325,239</u>

Amounts reported in the statement of net assets are different because:

Total fund equity	176,335
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	148,376
Prepaid expenses are not a current financial resources and, therefore, are not reported in the fund.	2,579
Compensated absences are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(2,051)</u>
Total net assets	<u>\$ 325,239</u>

See notes to the financial statements

Henika District Library**STATEMENT OF ACTIVITIES/STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

Year ended December 31, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Program expenditures/expenses			
Recreation and cultural - Library:			
Operations	\$ 265,634	\$ (40,023)	\$ 225,611
Depreciation	-	22,872	22,872
Capital outlay	12,462	(12,462)	-
Total program expenses	278,096	(29,613)	248,483
Program revenues			
Charges for services	11,817	-	11,817
Operating grants and contributions	2,847	-	2,847
Total program revenues	14,664	-	14,664
Net program expenses	(263,432)	29,613	(233,819)
General revenues			
Property taxes	213,021	-	213,021
State grants	6,030	-	6,030
District court penal fines	44,839	-	44,839
Investment return	3,332	-	3,332
Total general revenues	267,222	-	267,222
Change in fund balance/net assets	3,790	29,613	33,403
Fund balance/Net assets - beginning	172,545	119,291	291,836
Fund balance/Net assets - ending	\$ 176,335	\$ 148,904	\$ 325,239
Change in fund balance			3,790
<i>Amounts reported in the statement of activities are different because:</i>			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$54,531) exceeded depreciation (\$22,872) in the current period.			31,664
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.			(2,051)
Change in net assets			\$ 33,403

See notes to the financial statements

Henika District Library
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Henika District Library (the Library) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Library. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Henika District Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are considered to be fully collectible.

Henika District Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iii) Other assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture and equipment	3 - 20 years
Materials	5 - 10 years

v) Deferred revenues - The Library defers revenue recognition in connection with revenues that are not considered to be available to liquidate liabilities of the current period or resources that have been received, but not yet earned.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the line item level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

NOTE 3 - CASH:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Library. Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Library's deposits are in accordance with statutory authority. At December 31, 2004, the Library had deposits with a carrying amount of \$183,609 and a bank balance of \$186,174, of which \$117,636 is covered by federal depository insurance and \$68,538 is uninsured.

Henika District Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables (all of which are due within one year) as of year end for the Library in the aggregate, are as follows:

Taxes	\$219,794
Intergovernmental	<u>3,256</u>
Net receivables	<u>\$223,050</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the Library for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 24,243	\$ -	\$ -	\$ 24,243
Furniture and equipment	20,553	11,995	-	32,548
Books and a/v material	<u>98,790</u>	<u>42,541</u>	<u>-</u>	<u>141,331</u>
Subtotal	<u>143,586</u>	<u>54,536</u>	<u>-</u>	<u>198,122</u>
Less accumulated depreciation for:				
Buildings	(2,210)	(1,098)	-	(3,308)
Furniture and equipment	(4,865)	(9,768)	-	(14,633)
Books and a/v material	<u>(19,799)</u>	<u>(12,006)</u>	<u>-</u>	<u>(31,805)</u>
Subtotal	<u>(26,874)</u>	<u>(22,872)</u>	<u>-</u>	<u>(49,746)</u>
Governmental activities capital assets, net	<u>\$ 116,712</u>	<u>\$ 31,664</u>	<u>\$ -</u>	<u>\$ 148,376</u>

NOTE 6 - DEFERRED REVENUE:

Deferred revenue as of year end for the Library in the aggregate, are as follows:

Taxes	\$219,794
State aid	<u>3,008</u>
Net deferred revenue	<u>\$222,802</u>

Henika District Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The Library's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Library's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Library. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the plan. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended December 31, 2004, the Library's annual pension cost of \$12,825 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2000, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) an 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 30 years as a level percentage of payroll.

Three-year trend information is as follows:

<i><u>Fiscal year ending</u></i>	<i><u>Annual pension cost (APC)</u></i>	<i><u>Percentage of APC contributed</u></i>	<i><u>Net pension obligation</u></i>
12/31/02	14,007	100%	-
12/31/03	11,306	100%	-
12/31/04	12,825	100%	-

Henika District Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:

The Library is exposed to various risks of loss due to general liability, property and casualty, and workers' compensation potential claims.

The risks of loss arising from general liability up to \$2,000,000 aggregate, building contents and property damage, and workers' compensation coverage are managed through purchased commercial insurance.

NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective January 1, 2004, the Library implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change in the governmental funds:

Net assets, as previously reported - General Fund	\$172,545
Capitalization of capital assets, net of accumulated depreciation, not previously reported	116,712
Prepaid expenses are not current financial resources and, therefore, are reported in the fund	<u>2,579</u>
Net assets, as restated	<u>\$291,836</u>

REQUIRED SUPPLEMENTARY INFORMATION

Henika District Library**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - General Fund**

Year ended December 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 202,199	\$ 206,000	\$ 213,021	\$ 7,021
State grants	4,360	8,876	8,877	1
Charges for service	9,263	16,000	11,817	(4,183)
Fines and forfeitures	45,000	43,000	44,839	1,839
Investment return	3,166	2,800	3,332	532
Other	<u>1,145</u>	<u>1,145</u>	<u>-</u>	<u>(1,145)</u>
Total revenues	<u>265,133</u>	<u>277,821</u>	<u>281,886</u>	<u>4,065</u>
EXPENDITURES				
Recreation and cultural:				
Salaries	106,000	106,000	116,290	(10,290)
Employee benefits	29,500	29,500	27,166	2,334
Payroll taxes	9,500	9,000	9,129	(129)
Books	43,433	49,221	42,755	6,466
Supplies	6,800	13,100	10,779	2,321
Insurance	6,000	6,000	5,569	431
Utilities	7,000	7,000	7,169	(169)
Building and equipment maintenance	3,000	2,000	1,667	333
Professional services	10,500	7,000	7,291	(291)
Contracted services	26,500	27,500	27,500	-
Education and transportation	3,400	4,000	3,780	220
Advertising and publishing	1,800	2,300	2,104	196
Programs	2,500	3,000	2,707	293
Miscellaneous	<u>2,200</u>	<u>2,200</u>	<u>1,728</u>	<u>472</u>
Total recreational and cultural	<u>258,133</u>	<u>267,821</u>	<u>265,634</u>	<u>2,187</u>
Capital outlay	<u>12,000</u>	<u>16,000</u>	<u>12,462</u>	<u>3,538</u>
Total expenditures	<u>270,133</u>	<u>283,821</u>	<u>278,096</u>	<u>5,725</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(5,000)</u>	<u>(6,000)</u>	<u>3,790</u>	<u>9,790</u>
FUND BALANCE - BEGINNING	<u>172,545</u>	<u>172,545</u>	<u>172,545</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 167,545</u>	<u>\$ 166,545</u>	<u>\$ 176,335</u>	<u>\$ 9,790</u>

Henika District Library**SCHEDULE OF FUNDING PROGRESS****Employee Retirement System (Municipal Employees' Retirement System of Michigan)**

<i>Actuarial valuation date <u>December 31</u></i>	<i>Actuarial value of assets <u>(a)</u></i>	<i>Actuarial accrued liability (AAL) entry age <u>(b)</u></i>	<i>Unfunded AAL (UAAL) <u>(b-a)</u></i>	<i>Funded ratio <u>(a/b)</u></i>	<i>Covered payroll <u>(c)</u></i>	<i>UAL as a percentage of covered payroll <u>((b-a)/c)</u></i>
1998	\$101,604	\$141,535	\$39,931	72%	\$46,352	86%
1999	124,648	156,780	32,132	80%	47,699	67%
2000	144,732	209,113	64,381	69%	56,192	115%
2001	172,693	264,835	92,142	65%	89,324	103%
2002	196,445	291,608	95,163	67%	93,381	102%
2003	219,249	184,373	(34,876)	119%	72,450	0%